xstrata

Delivering the promise

Mick Davis - CEO

BAML Global Metals & Mining Conference - May 2011

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This presentation contains references to "cost curves". A cost curve is a graphic representation in which the total production volume of a given commodity across the relevant industry is arranged on the basis of average unit costs of production from lowest to highest to permit comparisons of the relative cost positions of particular production sites, individual producers or groups of producers across the world or within a given country or region. Generally, a producer's position on a cost curve is described in terms of the particular percentile or quartile in which the production of a given plant or producer or group of producers appears. To construct cost curves, industry analysts compile information from a variety of sources, including reports made available by producers, site visits, personal contacts and trade publications. Although producers may participate to some extent in the process through which cost curves are constructed, they are typically unwilling to validate cost analyses directly because of commercial sensitivities. Inevitably, assumptions must be made by the analyst with respect to data that such analyst is unable to obtain and judgment must be brought to bear in the case of virtually all data, however obtained. Moreover, all cost curves embody a number of significant assumptions with respect to exchange rates and other variables. In summary, the manner in which cost curves are constructed means that they have a number of significant inherent limitations. Notwithstanding their shortcomings, independently produced cost curves are widely used in the industries in which Xstrata operate.

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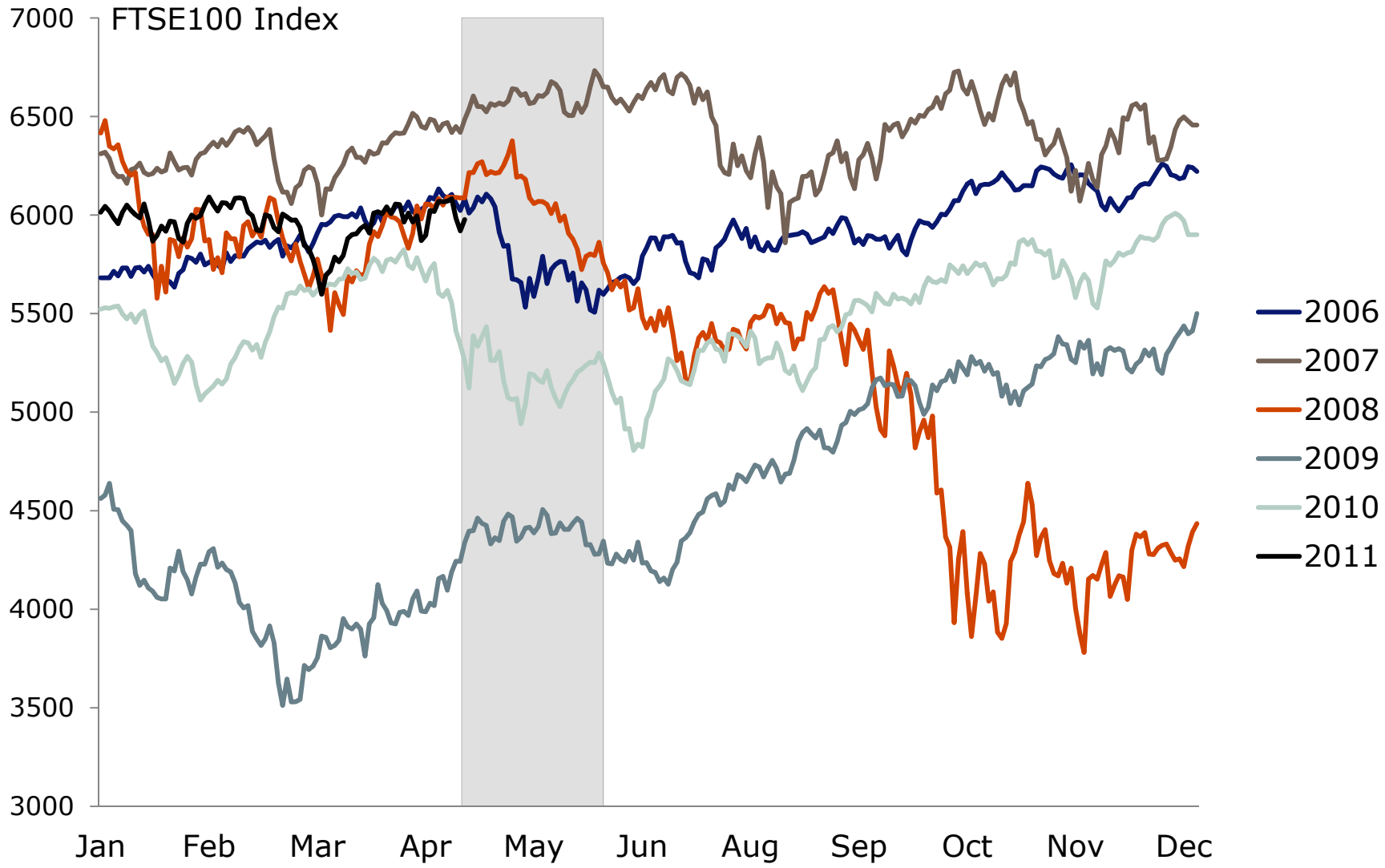
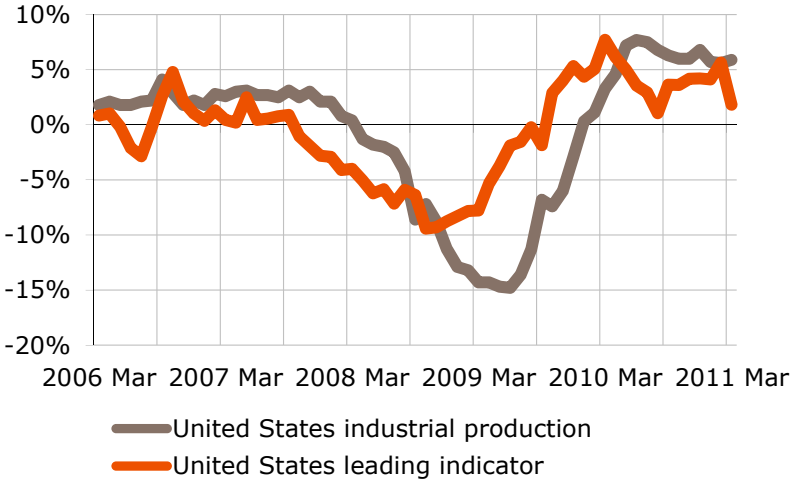
"Sell in May and Go Away"?



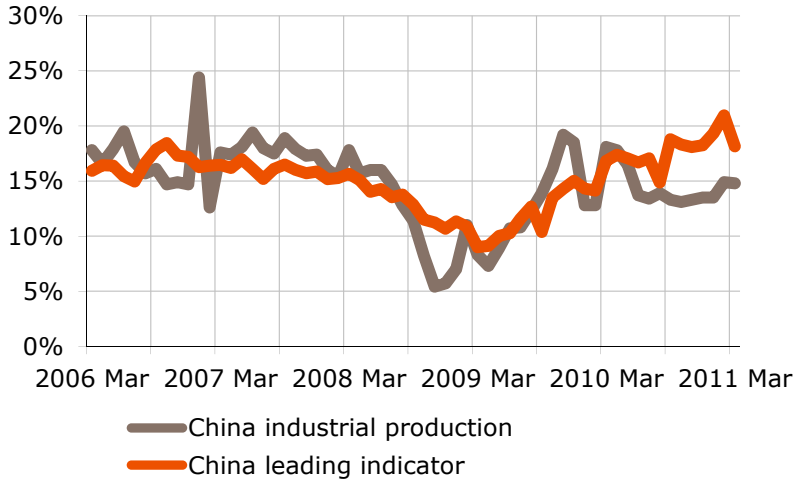
Source: Bloomberg

Post restocking and stimulus slowdown

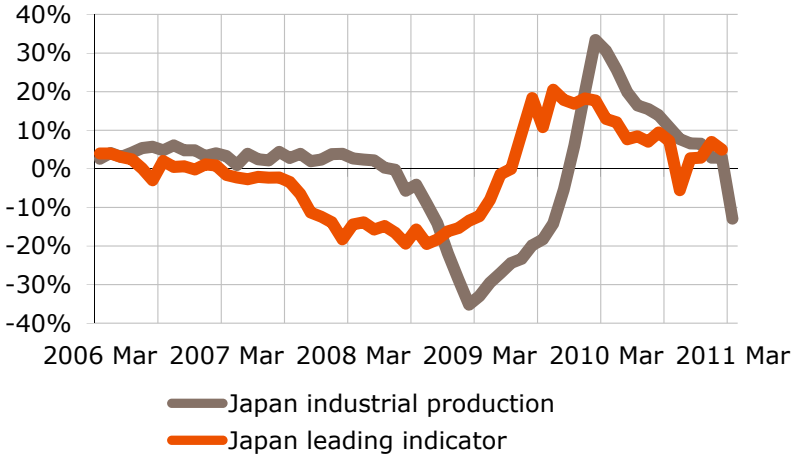
United States, y/y growth in IP



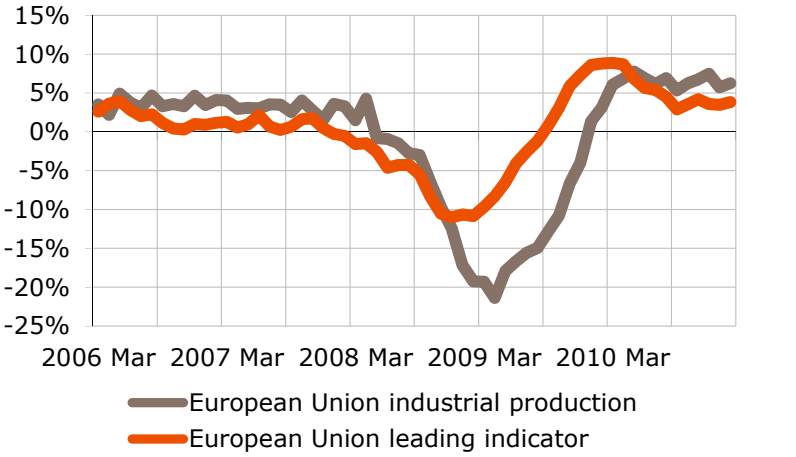
China, y/y growth in IP



Japan, y/y growth in IP



Eurozone y/y growth in IP



Source: Xstrata's Proprietary Leading Indicator Analysis

Agenda

- Mining within global equities
- An industry transformed
- Xstrata: delivering the promise

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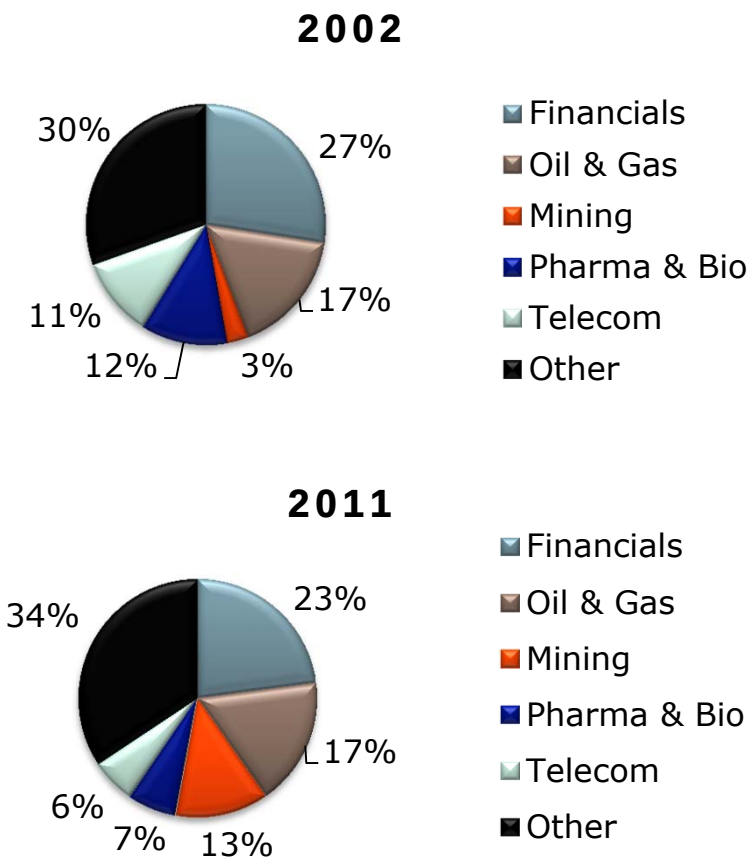
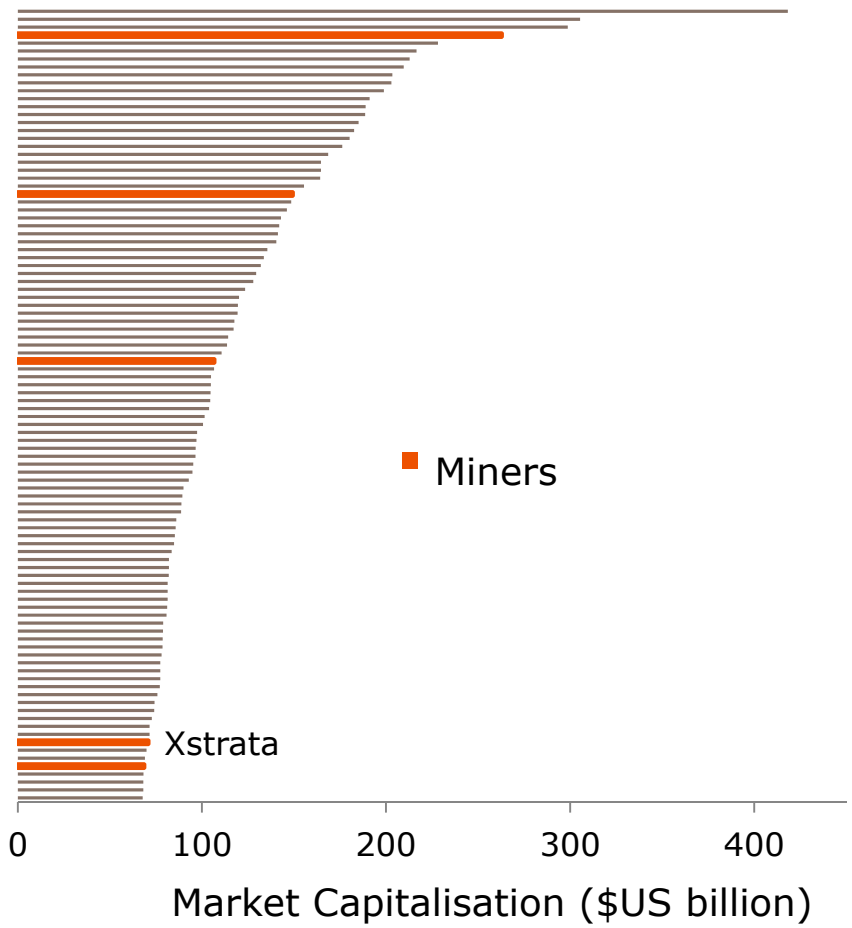
Mining within global equities

Mining is now a core part of any equity investment portfolio

Mining as a % of UK equity markets



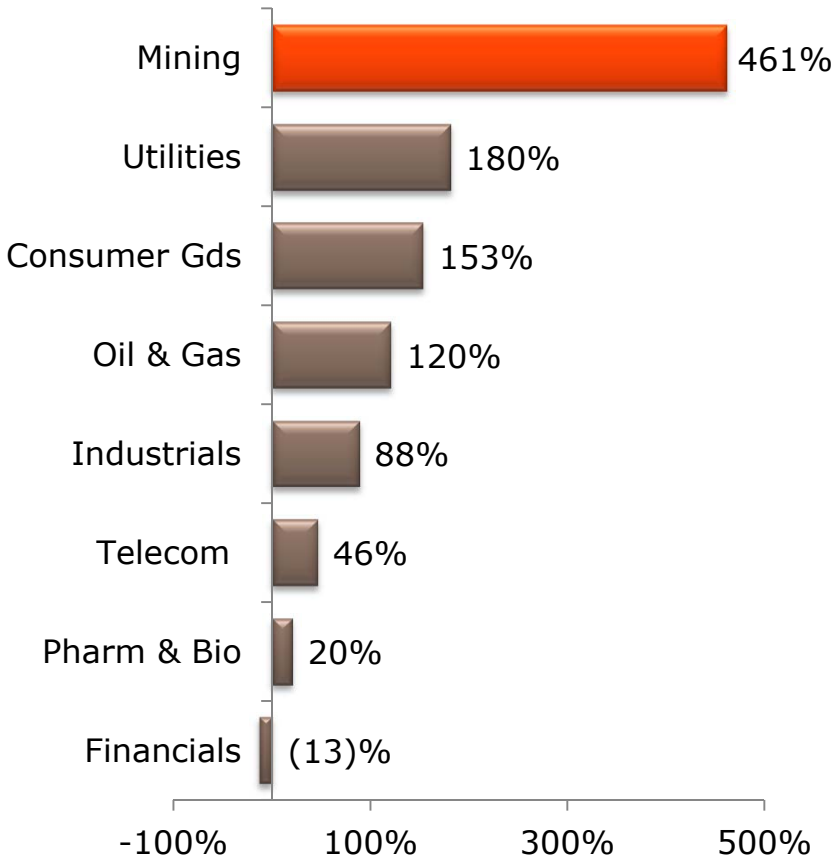
Market cap of world's largest 100 companies



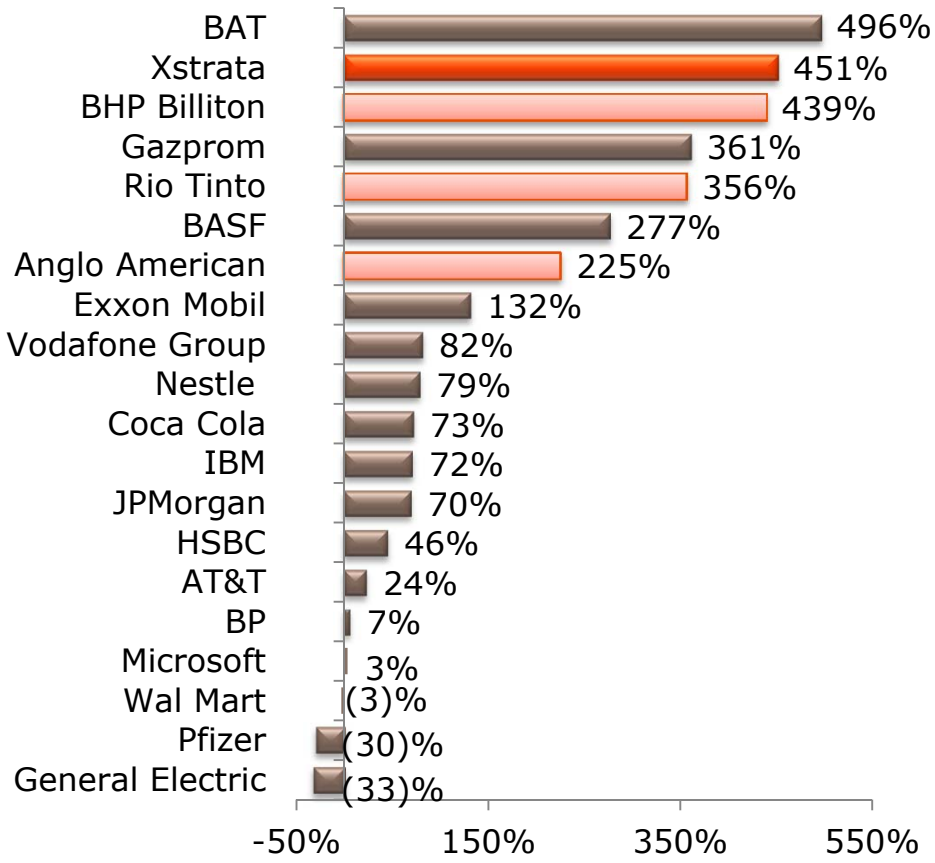
Source: Datastream- FTSE All Share, Bloomberg Global Titans-the largest 100 companies globally by market capitalisation

Mining has delivered superior returns over the past decade

Sector Total Shareholder Return(1)



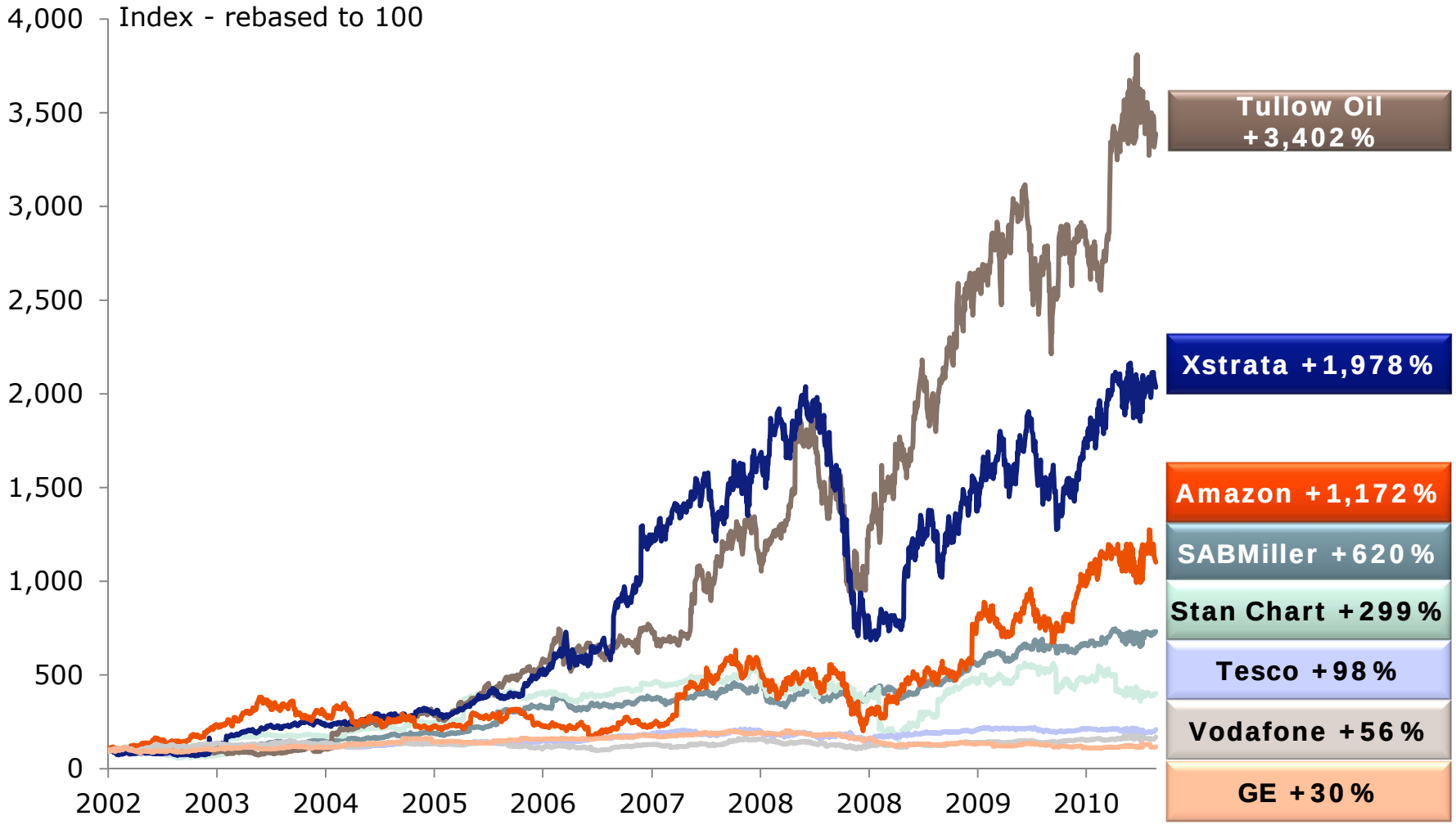
TSR vs selected global titans(1)



(1) Since Xstrata IPO
Source: Datastream

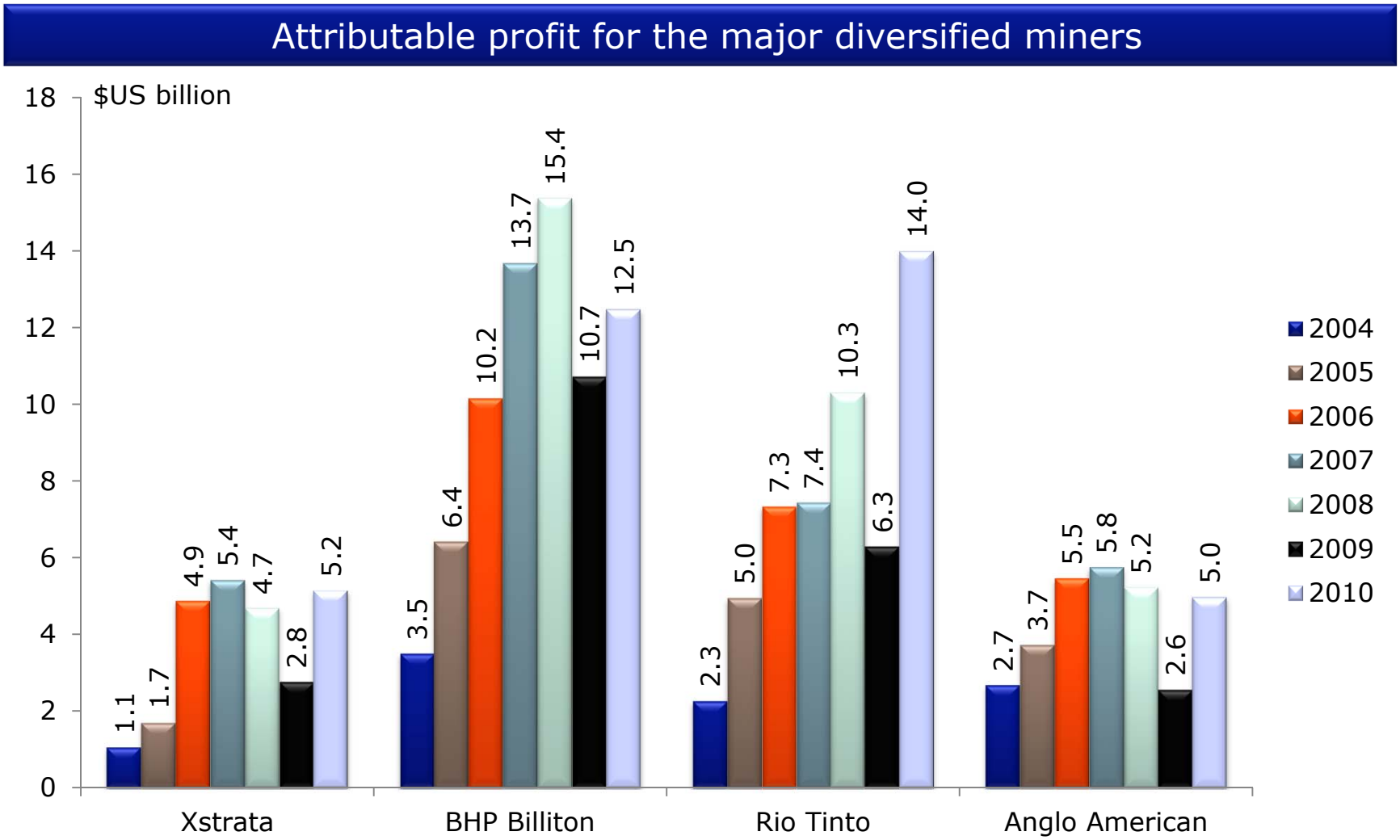
Xstrata's rate of growth has outstripped that of iconic global companies, such as Amazon.com

Xstrata EV since IPO compared to selected companies



Source: Bloomberg as of 28 April 2011
Note: EV data sourced from Bloomberg and uses current market cap, minority interest, net debt reported at half and full year, EV of all companies rebased to 100 on July 01, 2002

Over this period, miners have consistently generated significant earnings...



Source: Annual reports, note: BHP June year end.

… as well as consistent, strong cash-flows

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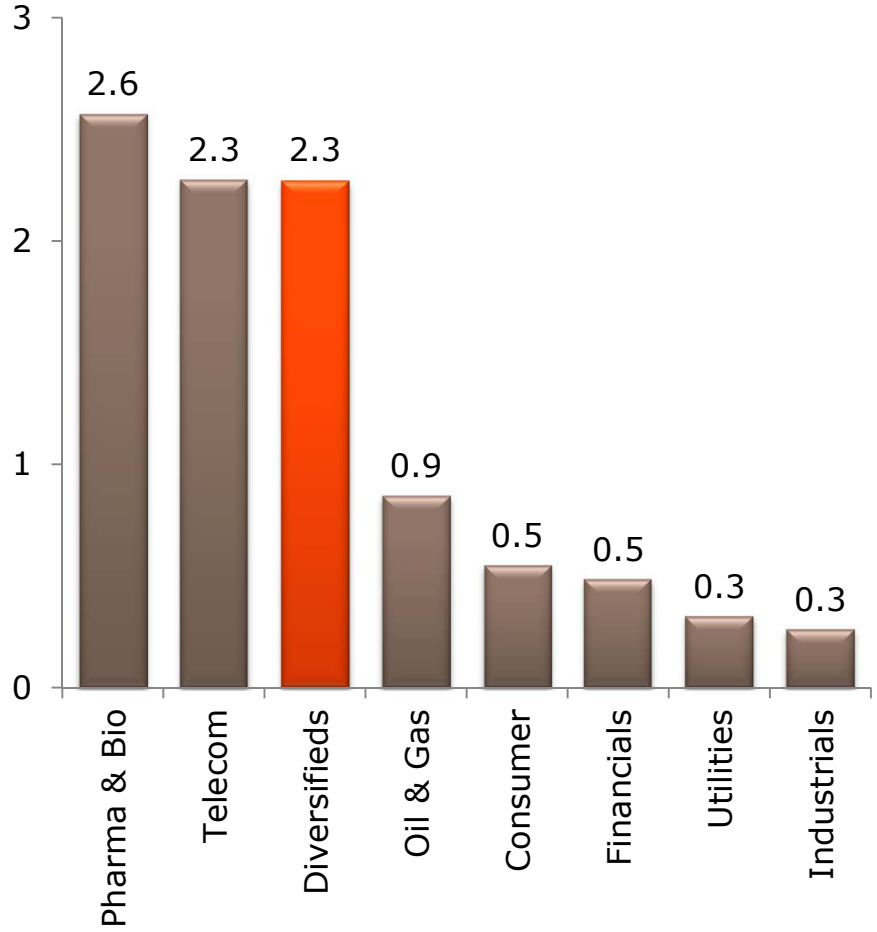
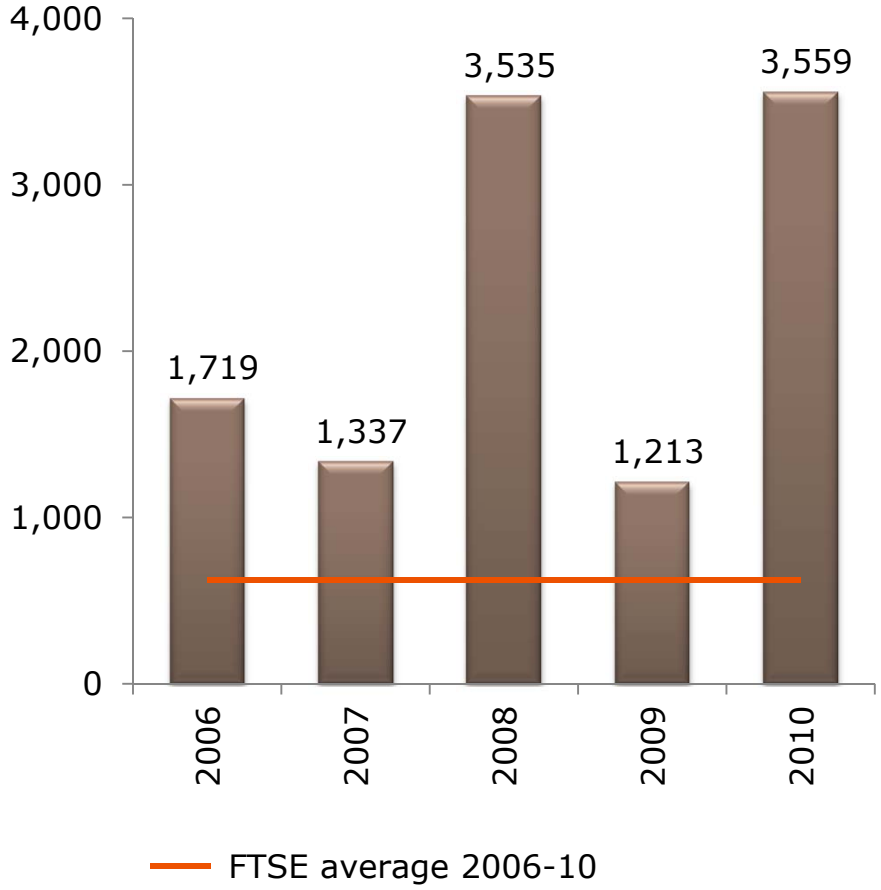
Strong cashflow generation…

Free cash flow annual average 2006-10 (£ billion)



… year after year

Annual free cash flow of diversified miners (£ billion)

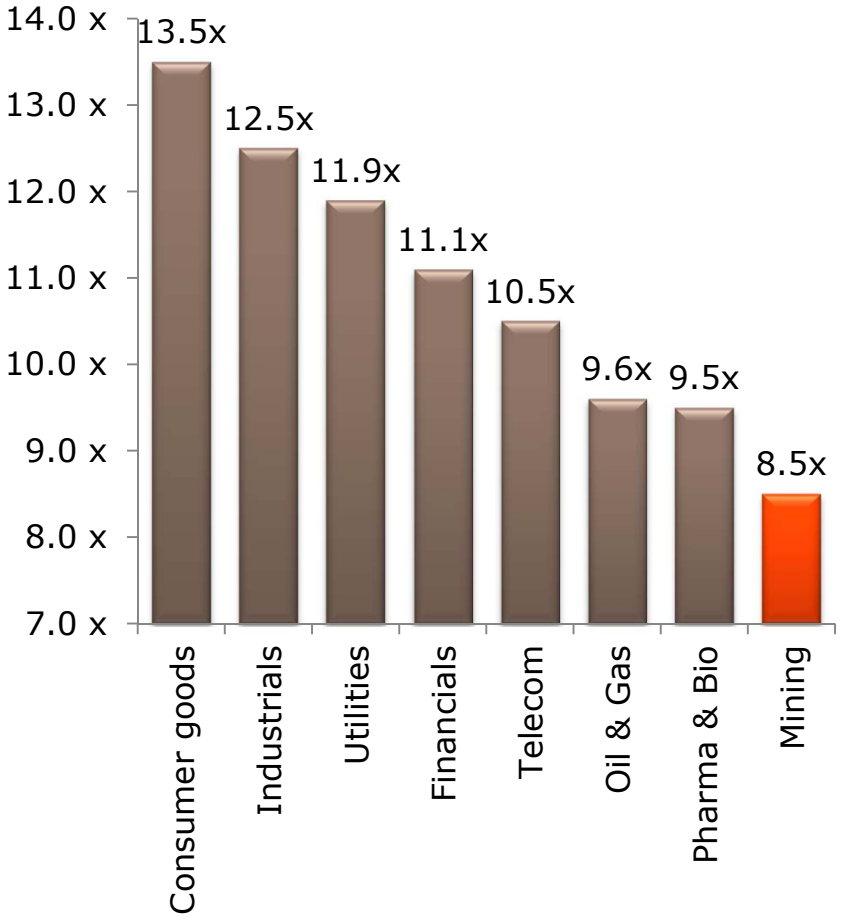


Source: Capital IQ

But, the market is seemingly yet to be convinced that this performance is sustainable

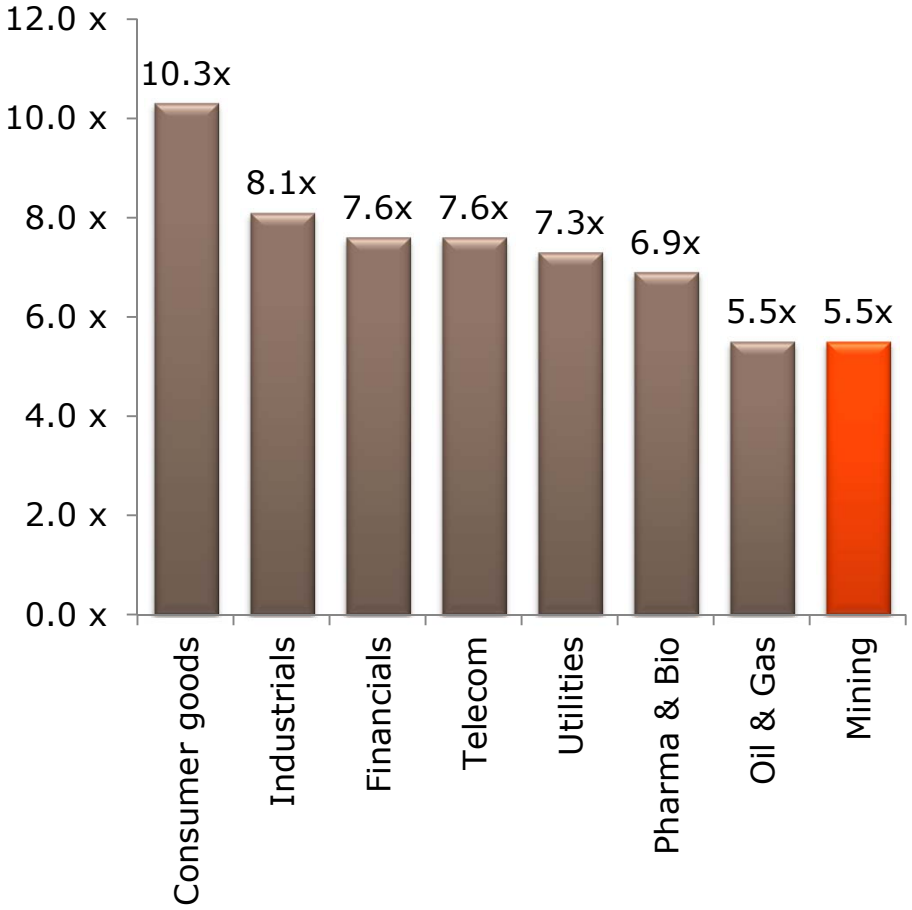
Mining appears undervalued on P/E…

FTSE Sector forward year P/E



… and EV/EBITDA

FTSE Sector forward year EV/EBITDA



Source: Deutsche Bank estimates, Bloomberg

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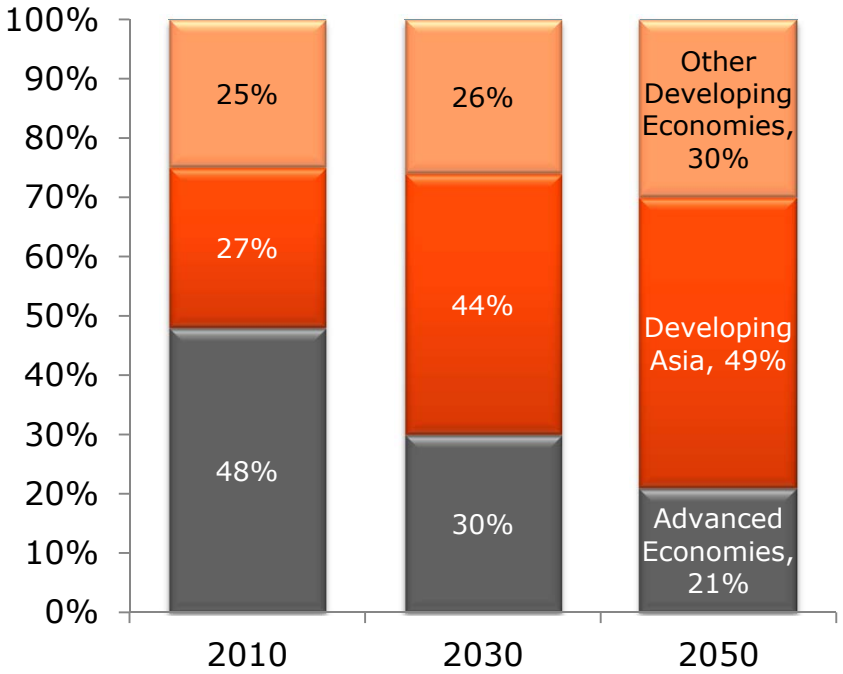
An industry transformed

Multi-decade secular change…

Contribution to Global GDP

GDP in 2010 PPP $US

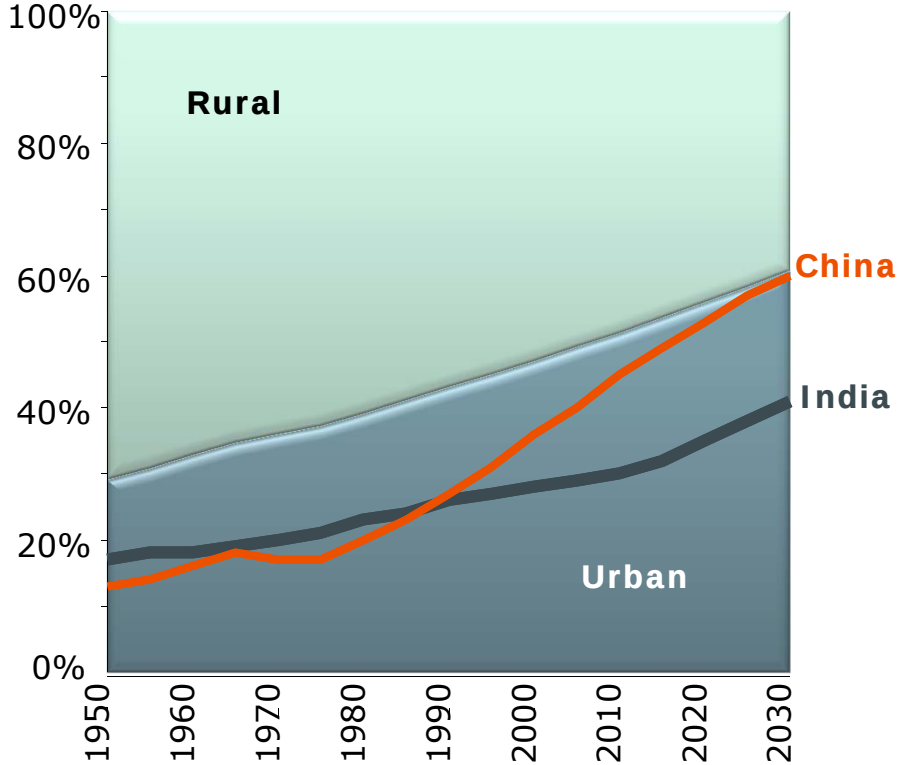


Developing Economies as of total:	52 %	70 %	79 %

Developing economies are expected to account for almost 80 % of global GDP by 2050

Global urban migration

% urbanised



China will have 221 one million plus population cities by 2025 – compared to Europe with 35 today

Source: Citi Investment Research and Analysis, IMF , UN Department of Economic & Social Affairs , McKinsey Global Institute

...driving a structural shift in commodity demand

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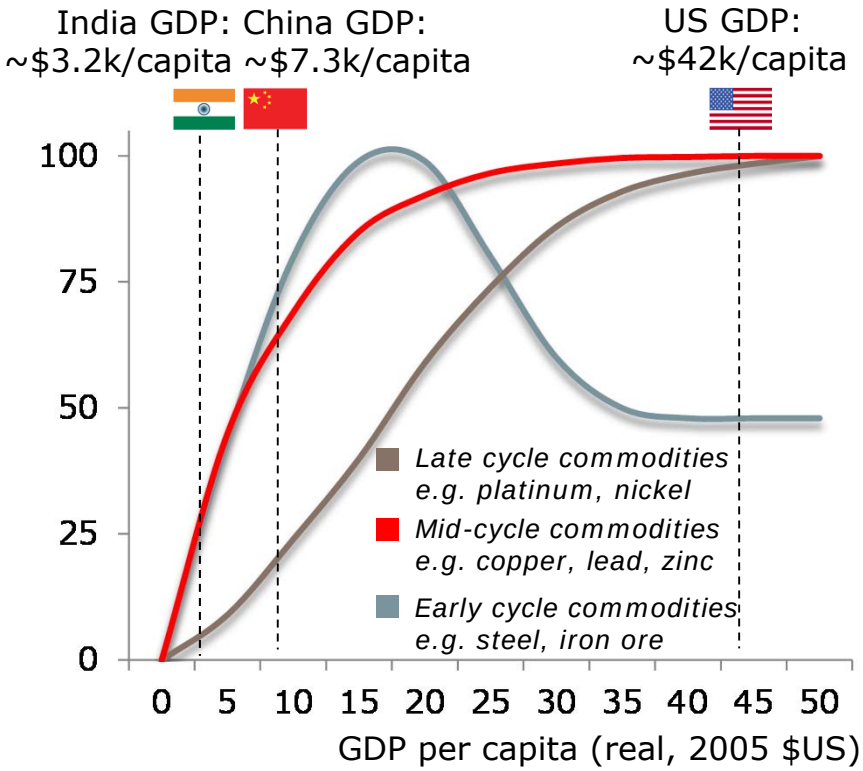
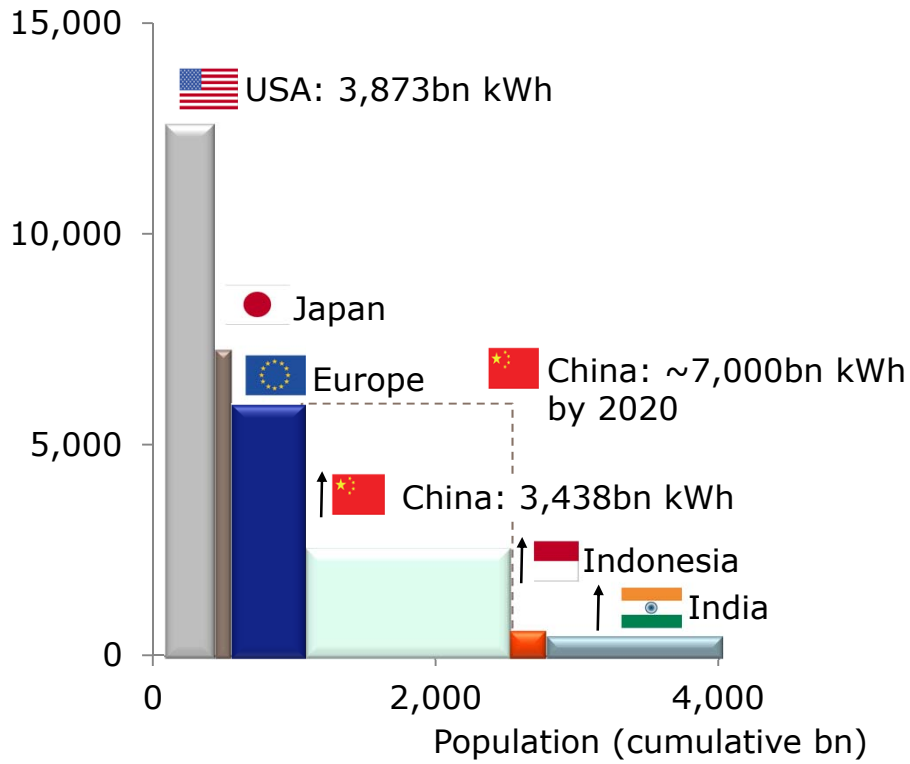
Growing populous nations have a multiplier effect on commodity demand

Commodity Intensity[1]



Increasing intensities driven by a demand shift for commodities in emerging markets

Energy consumption per capita (kWh/capita)



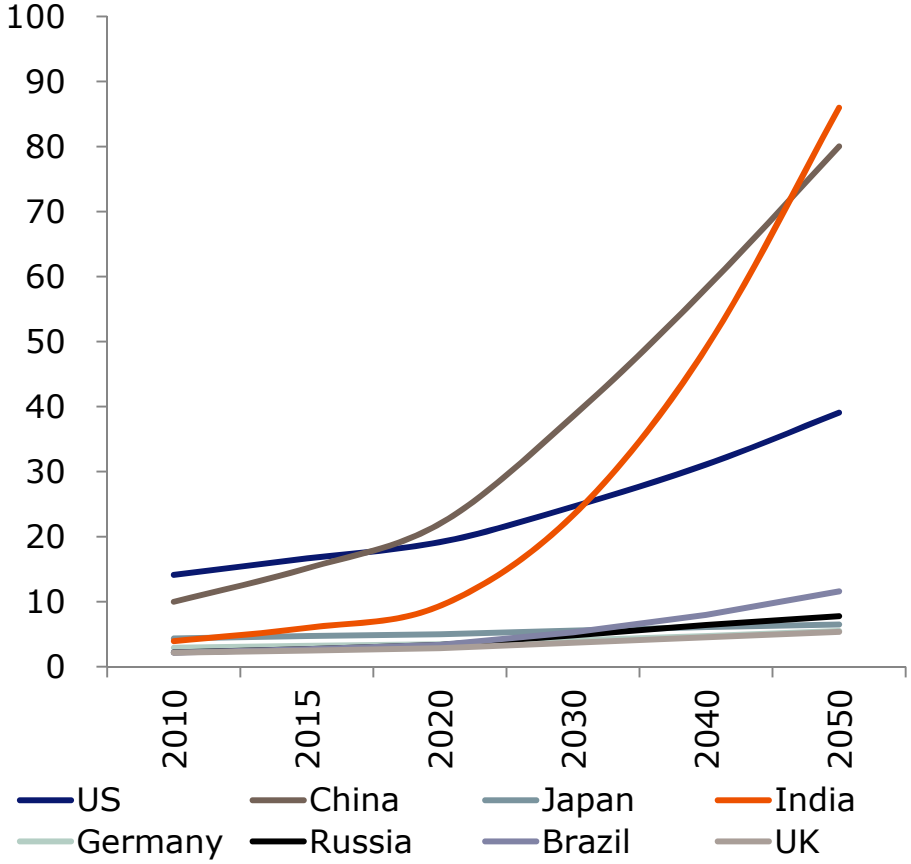
China's per capita energy consumption is expected to double by 2020

Source: IMF, USGS, CIA Factbook
Note: [1] Stylised intensity curves based on developed countries, Indexed to 100 at maximum

India is already decisive in some commodity sectors

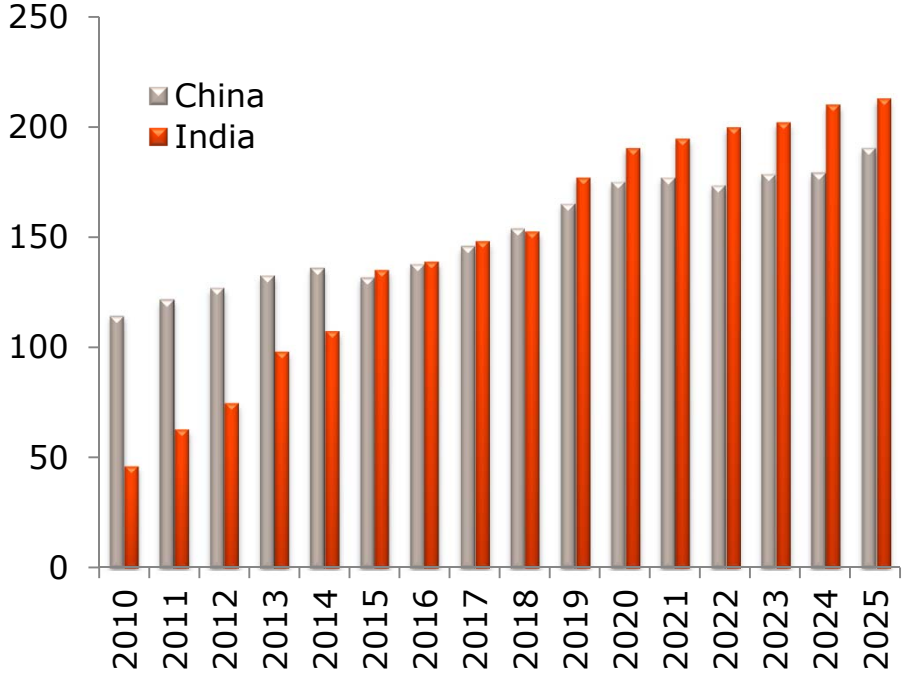
India's economy is expected to be larger than the US' and China's by 2050

GDP in 2010 PPP $US trillion



Chinese and Indian thermal coal imports

Seaborne thermal coal imports (Mt)



India is expected to become the largest thermal coal importer by 2015

Sources: Wood Mackenzie Coal Market Service, Citi Investment Research and Analysis

Commodity supply continues to be constrained

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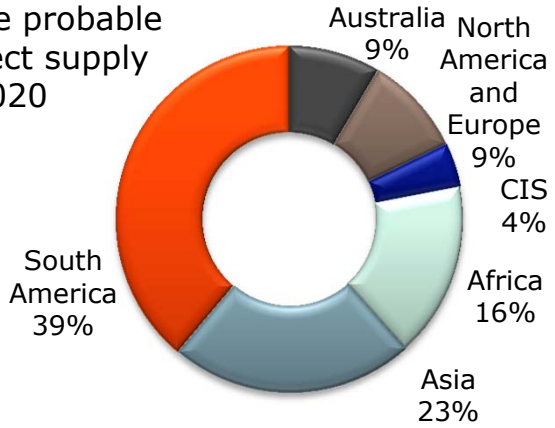
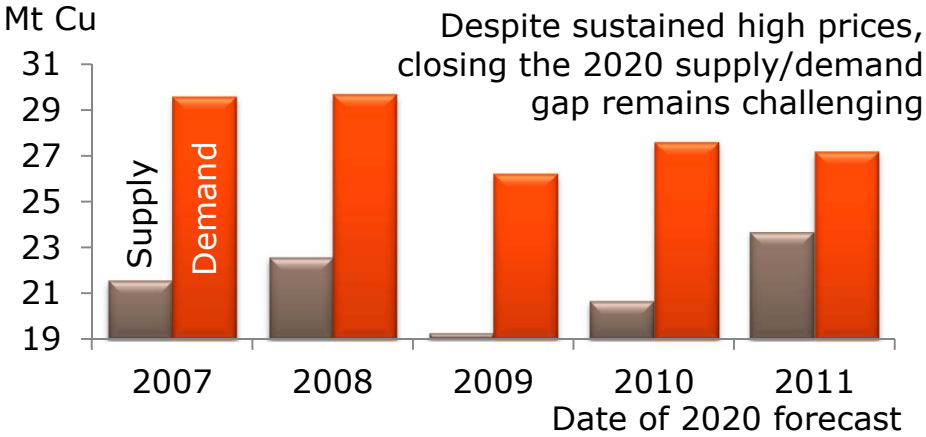
Geographic origin of new copper supply

Cumulative probable mine project supply 2011 to 2020

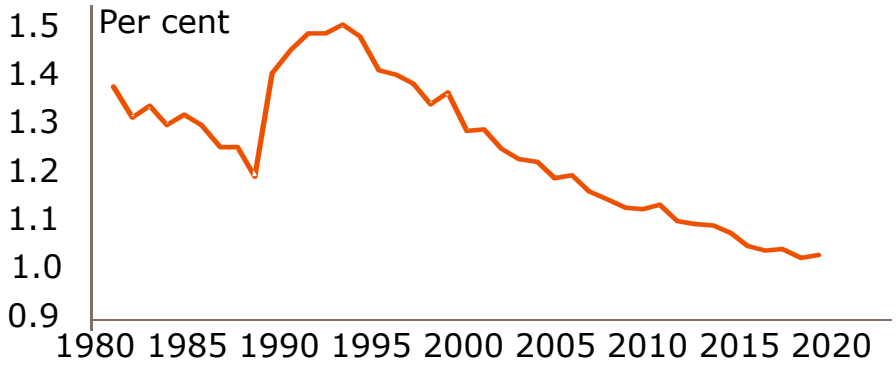


2020 Copper supply/demand forecasts

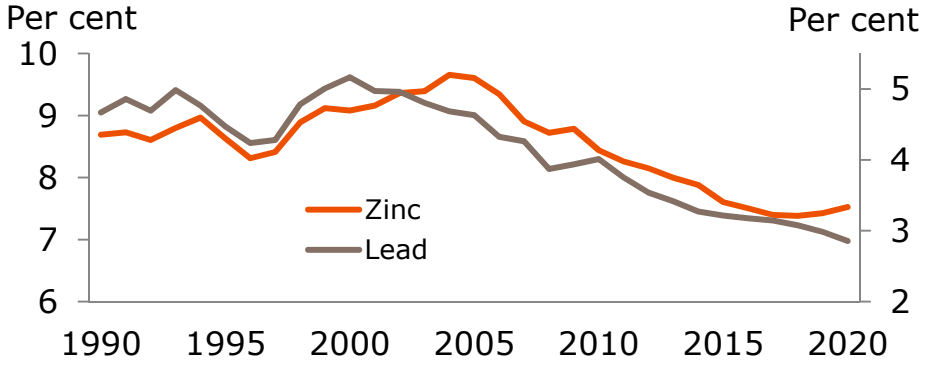
Despite sustained high prices, closing the 2020 supply/demand gap remains challenging



Copper industry grade decline



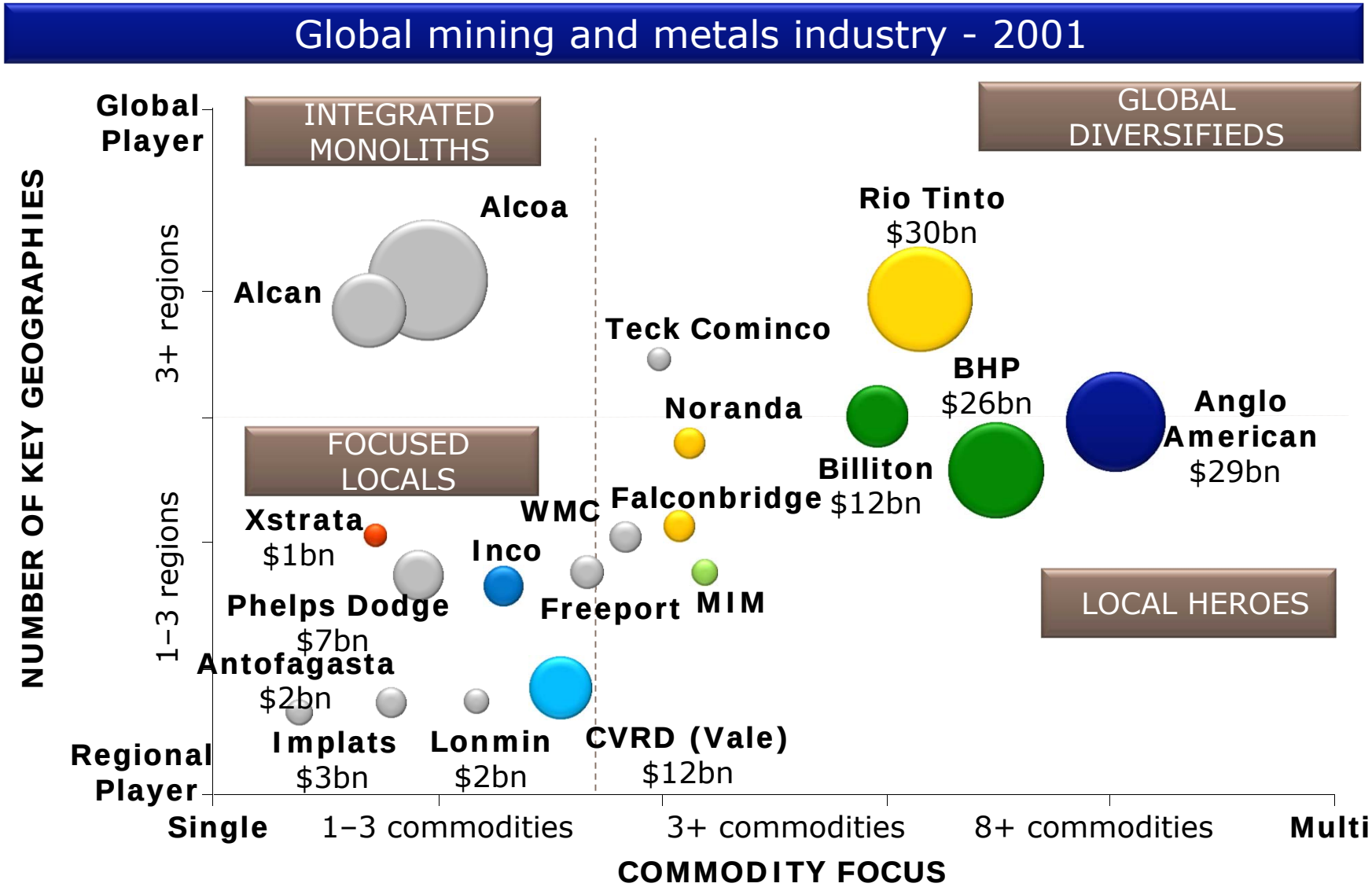
Zinc/lead industry grade decline



More than 80% of new copper supply is from emerging markets with more complex and challenging environments suffering from a lack of infrastructure to sovereign risk issues

Source: BrookHunt, MEG, Xstrata estimates

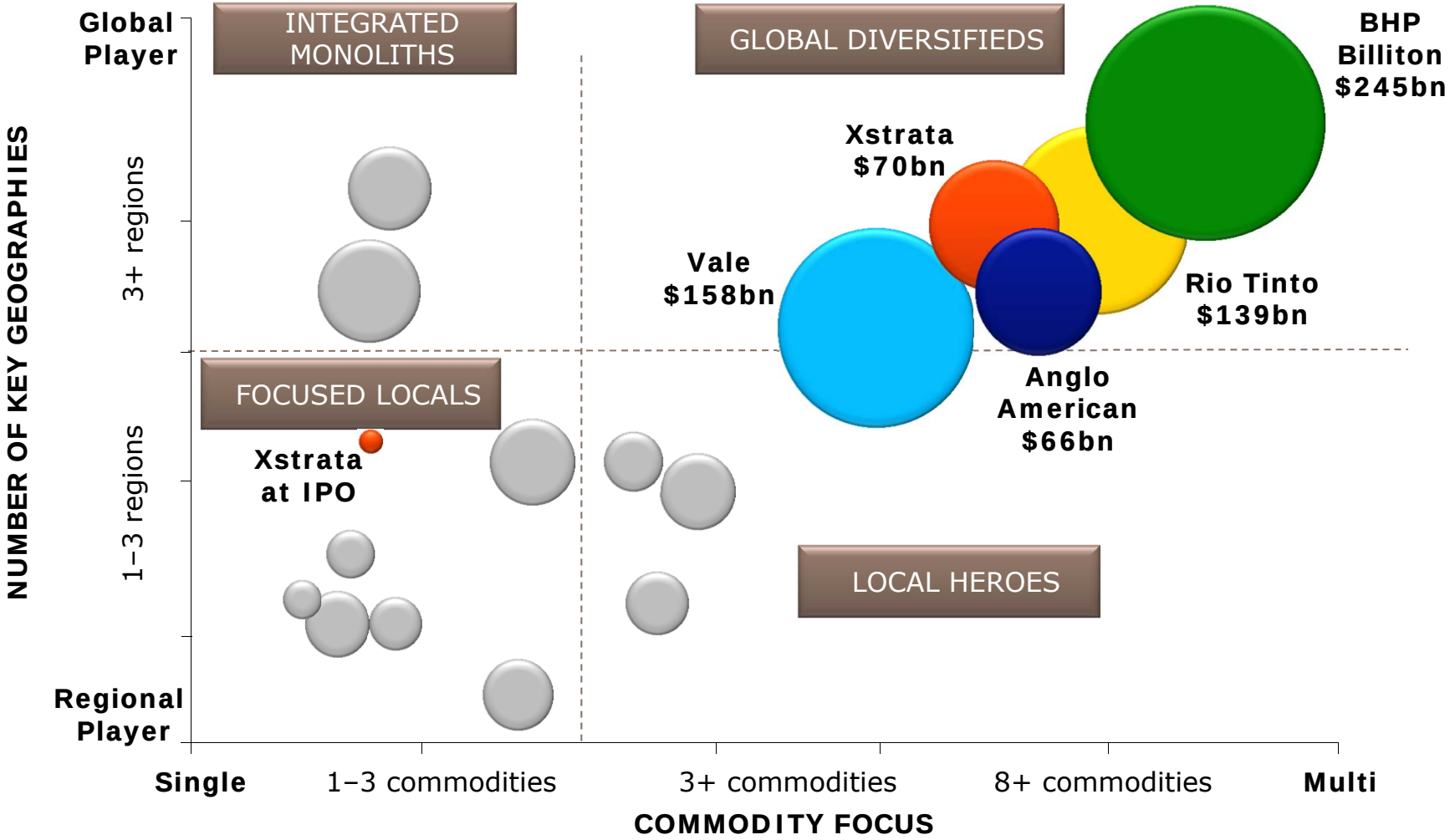
A decade ago, the industry was fragmented with no clear winning business model



Source: Bubble sizes represent market capitalisation as 1 January 2001

Today mining is consolidated, with the Diversified Model proving best positioned to compete into the future

Global mining and metals industry – 2011*



Source: Bloomberg, market capitalisation as at 6 May 2011

The Virtuous Circle

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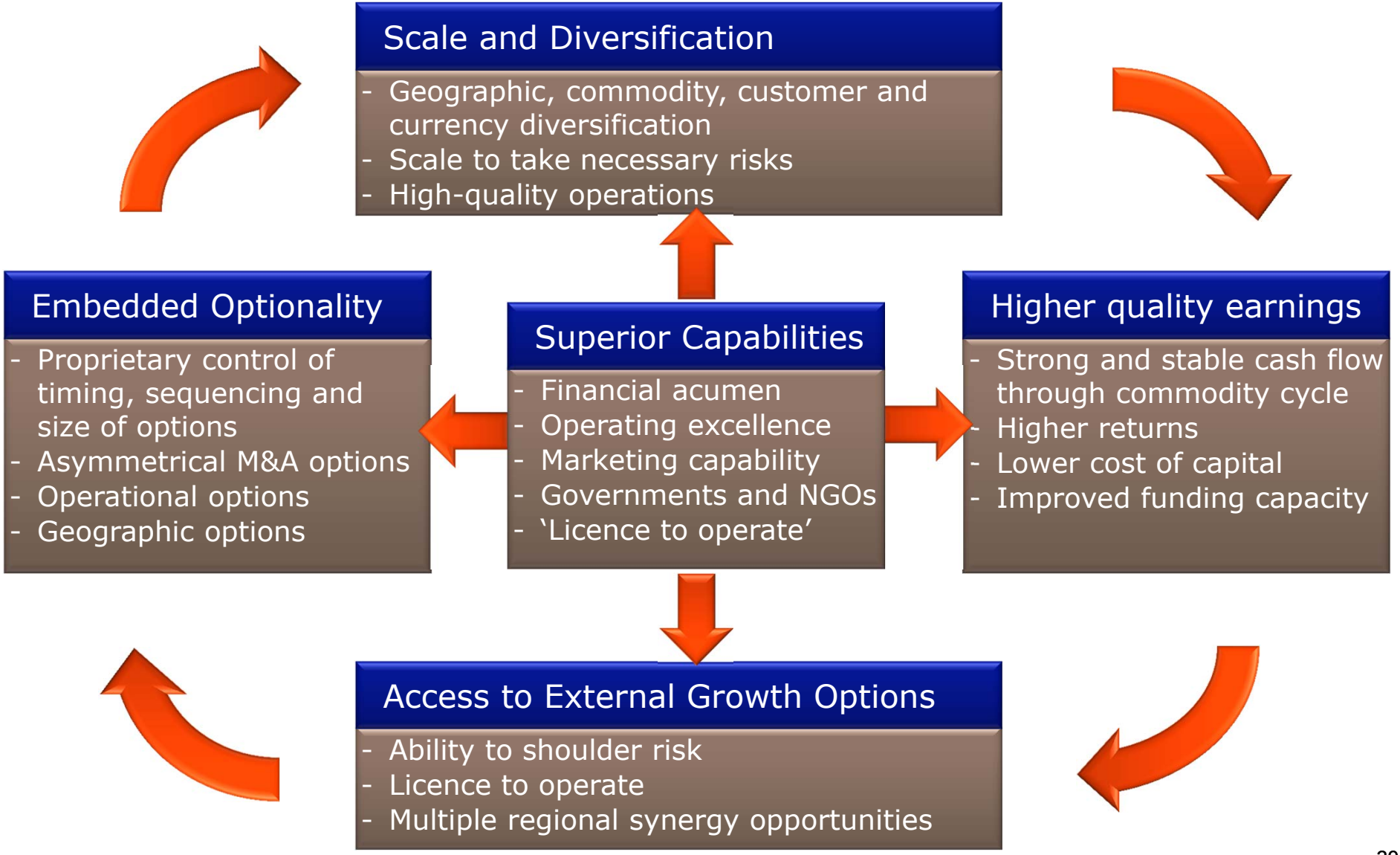
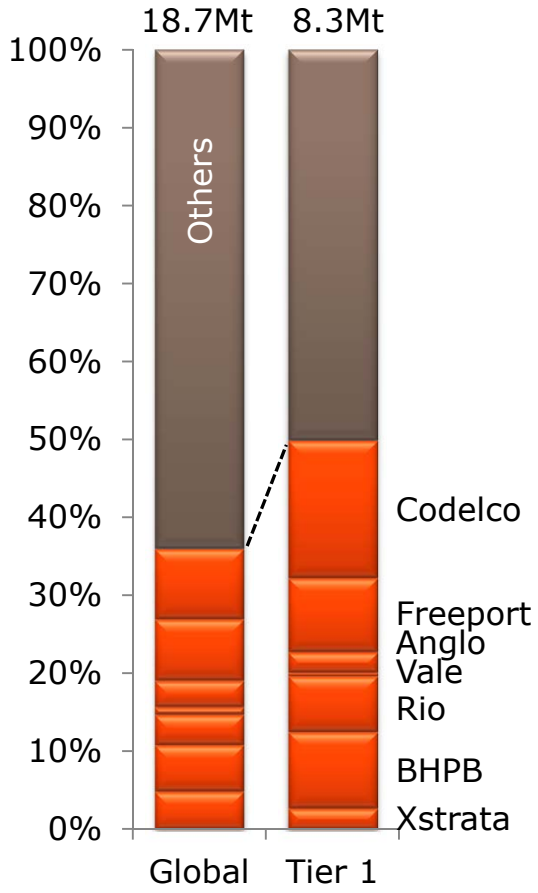


The mining majors already manage the majority of large, low cost assets...

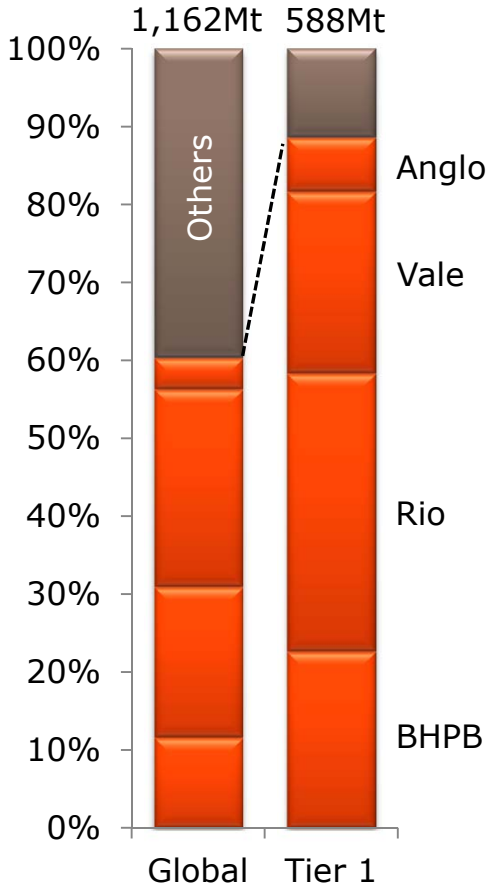
Copper

Mined Cu production (2010)



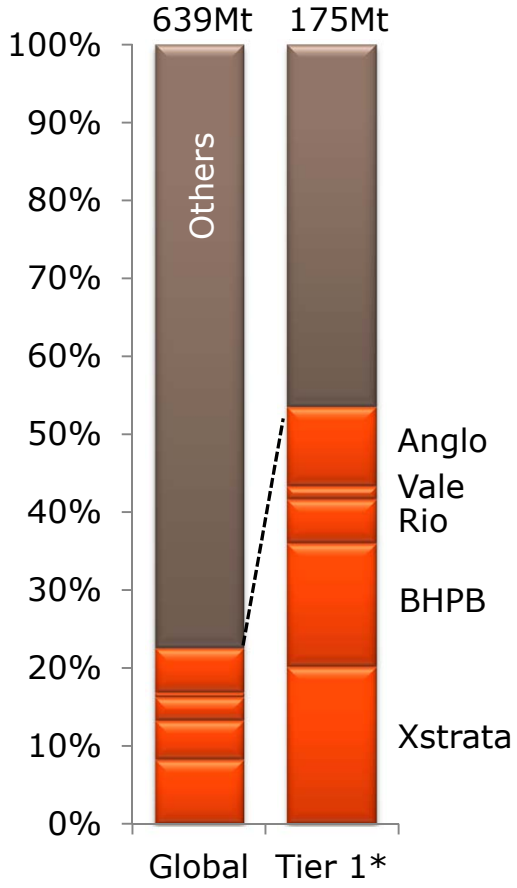
Iron Ore

Production (2010)



Thermal Coal

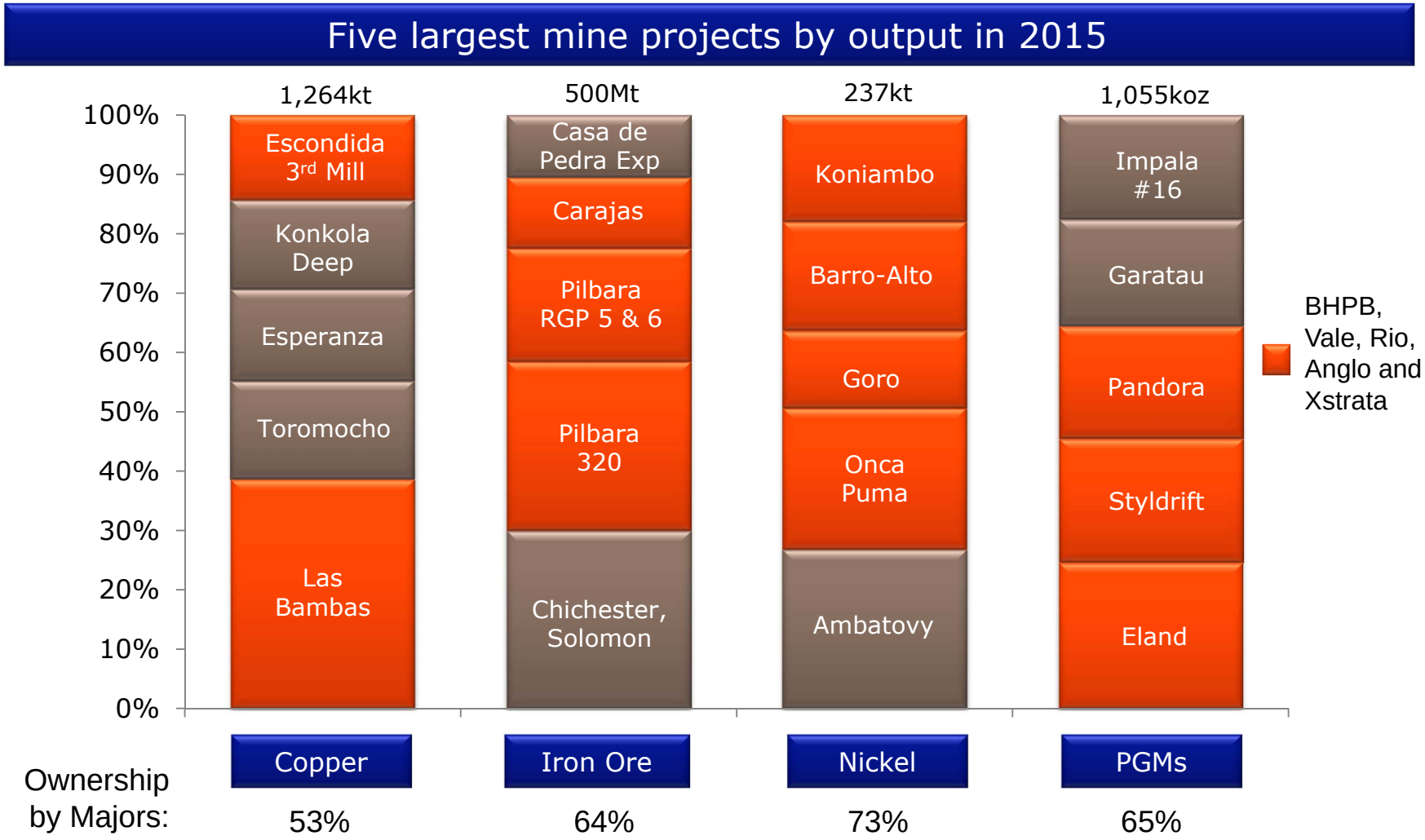
Thermal Coal exports (2010)



Asset managed by the major mining companies

Note: Tier 1 is defined as being in first half of global cost ranked by C1 cost, and upper quartile of the world's mines ranked by output
**Tier 1 is as production >1.5Mtpa and margin of >USD30 in 2010*
Source: Wood Mackenzie (2010), Metalytics (2010), Xstrata estimates

… and own the bulk of the new organic growth options



Note: 5 largest projects (greenfield and brownfield) by output in 2015. Copper : "highly probable" or "probable" in Brook Hunt, including projects ramping up in last 6 months. Nickel; CRU Group Nickel Quarterly; Iron Ore: Metalytics; PGM: Xstrata Estimates. Internal project pipeline assessment made for all Xstrata projects.
Source: Brook Hunt (2011 Q1); Wood Mackenzie; Metalytics; CRU Group; Xstrata estimates

Consolidation is likely to continue – BUT

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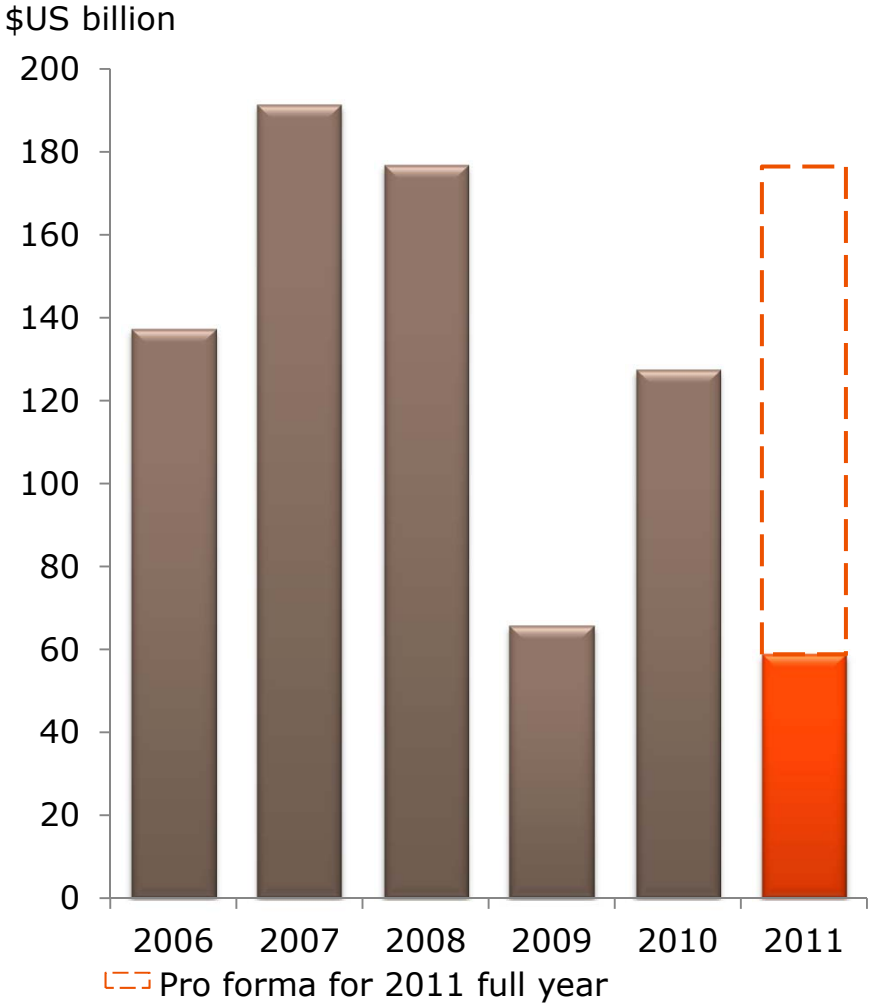
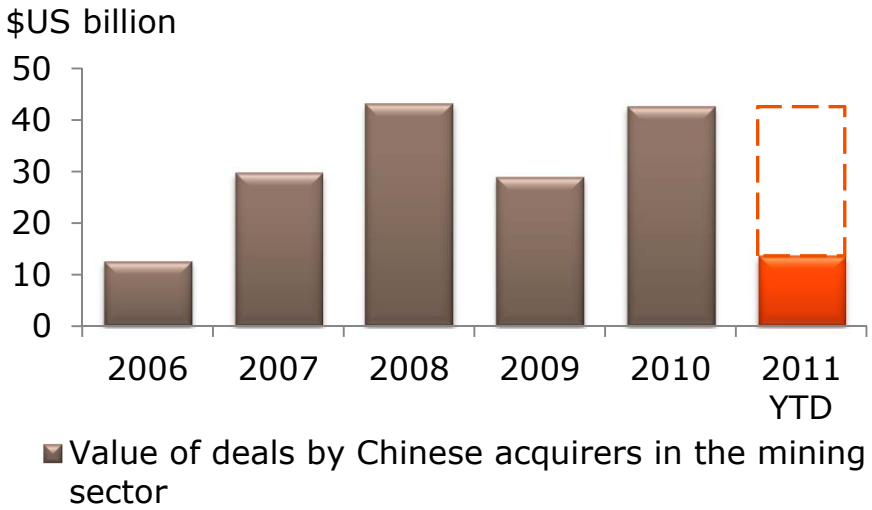
M&A in the mining sector



China's thirst for resource security



Valuation of remaining resources reflects industry consolidation

- Equinox Minerals offers a prime illustration of demand for resource assets
  - o Minmetals offer at C$7, a 23% premium
  - o Counter-offer by Barrick at C$8.15
    - 43% premium to pre-Minmetals offer
    - 60% premium to average last 12m price

Source: SDC

Increased globalisation, consolidation and continued success bring about key challenges for the industry

Emerging Challenges	Examples and Potential Impact
Resource nationalism	• Windfall taxes, royalties, carried interest, 'empowerment' of indigenous people, allocation of licences, mining licence reviews, etc. – increased complexity and cost
Constrained inputs (especially for project development)	• Key engineering and project management skills, fabrication capacity, contractors, etc. – project delays and increased costs
Higher input costs	• Energy, fuel, steel, explosives, labour and contractors, strong producer currencies – higher long-term costs
Water shortage	• Competition with communities for water in arid areas, cost of providing alternatives (e.g. desalination)
Social licence to operate	• Rising community expectations, NGO activity - delayed mining expansion, cost of compliance, focus on community involvement
Growing legislation/regulation	• Increased legislation across the board – UK Bribery Act, transparency initiatives, anti-trust, etc., growing organisation complexity and cost of compliance
Environmental/Climate Change regulation impacts	• Growing complexity, legislation by country, increased costs, impact on competitiveness
Competition for access to new resources	• New 'strategic' and commercial acquirers - higher price for control, scarce resources

Large diversifieds best positioned to mitigate these risks

Sustainable Value Creation

- Secular change in demand
- An industry struggling to supply into burgeoning demand
  - Running at full capacity
  - Falling grades
  - Project delays
  - Dearth of major new finds
  - New deposits in complex locations
- Significantly consolidated sector
  - Ongoing consolidation
  - New competitors for remaining assets
- Key emerging risks are best mitigated by diversified players
  - Resource nationalism
- Diversified model best positioned to generate sustained value creation

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Xstrata: delivering the promise

Positioned to deliver superior returns

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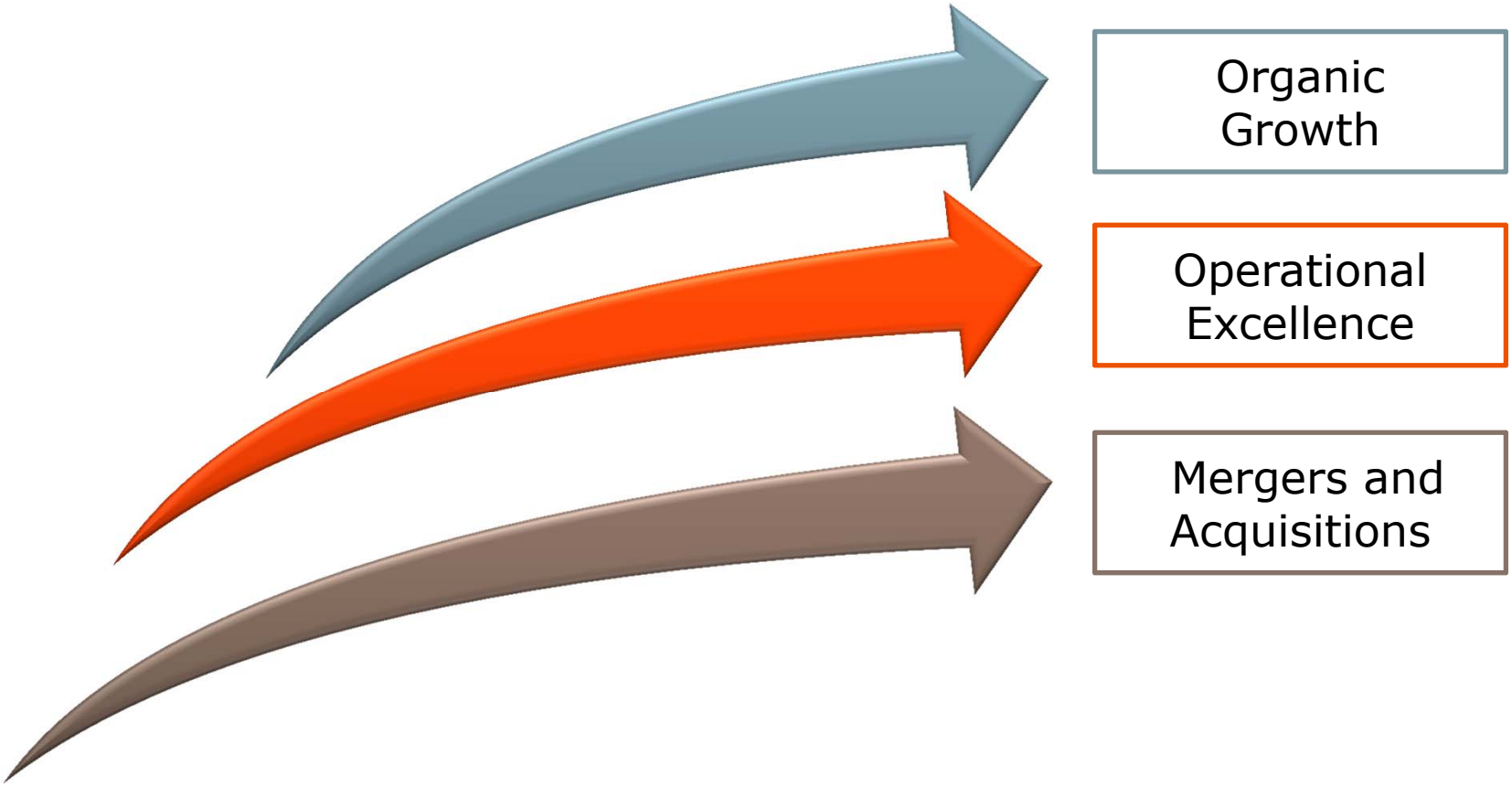
2002-2003: Emergence of developing economies	2003-2006: Commencement of "super-cycle"	2007-2008: Decoupling debate	2H2008-1H2009: Credit crunch	2009-2011: Hesitant recovery underway
Phase I: Create optionality	Phase II: Enhance optionality		Phase III: Deliver optionality	



More than ever, existing miners must "Run hard to stand still"

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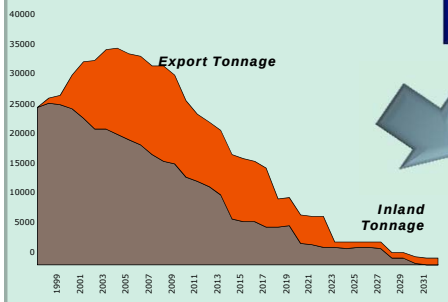
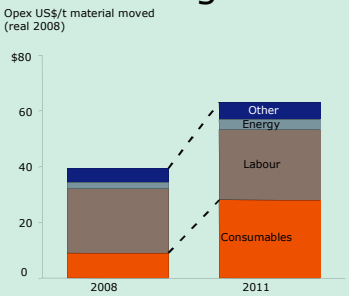
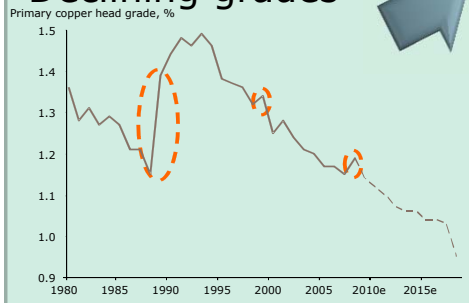
Depleting reserves



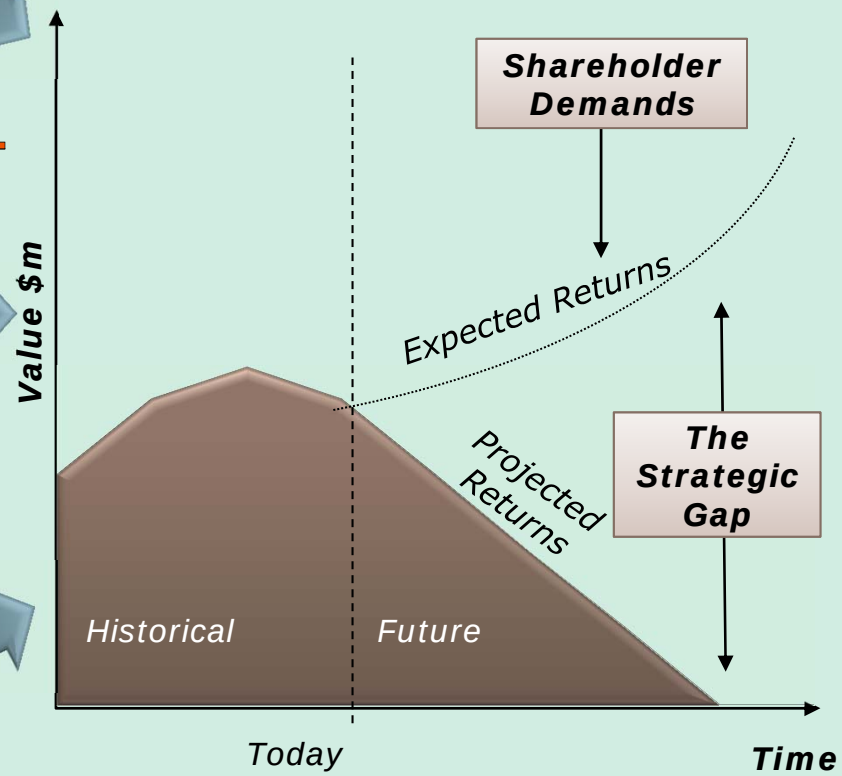
Increasing costs



Declining grades



Bridging the strategic gap



Source: Company data

Recent capex announcements

Xstrata
- $21bn approved or soon-to-be-approved projects

Anglo American
- $16bn approved for next 3 years

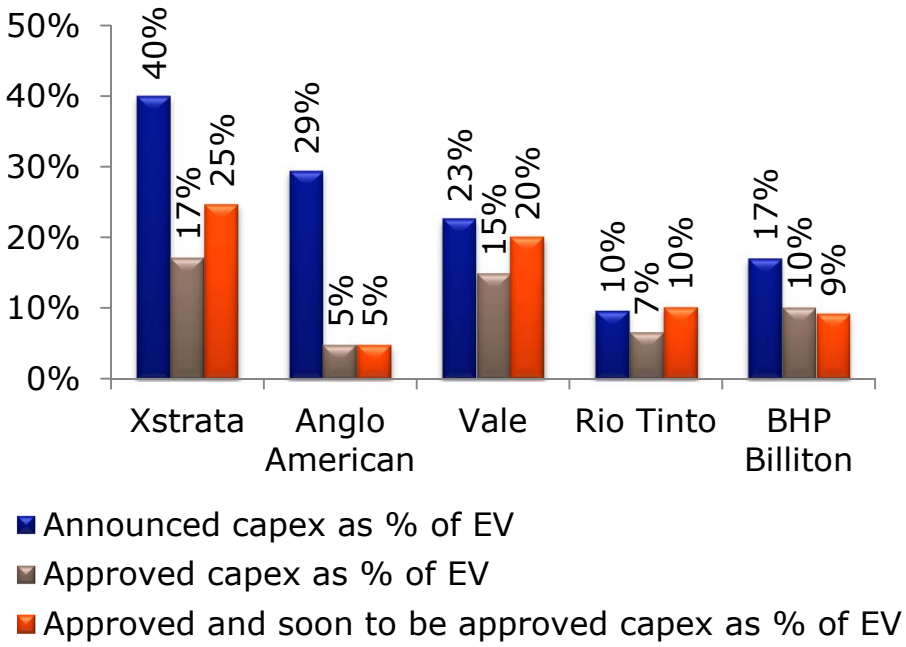
BHP Billiton
- $15bn in 2011

Rio Tinto
- $12bn major capital project approvals in 2010/11

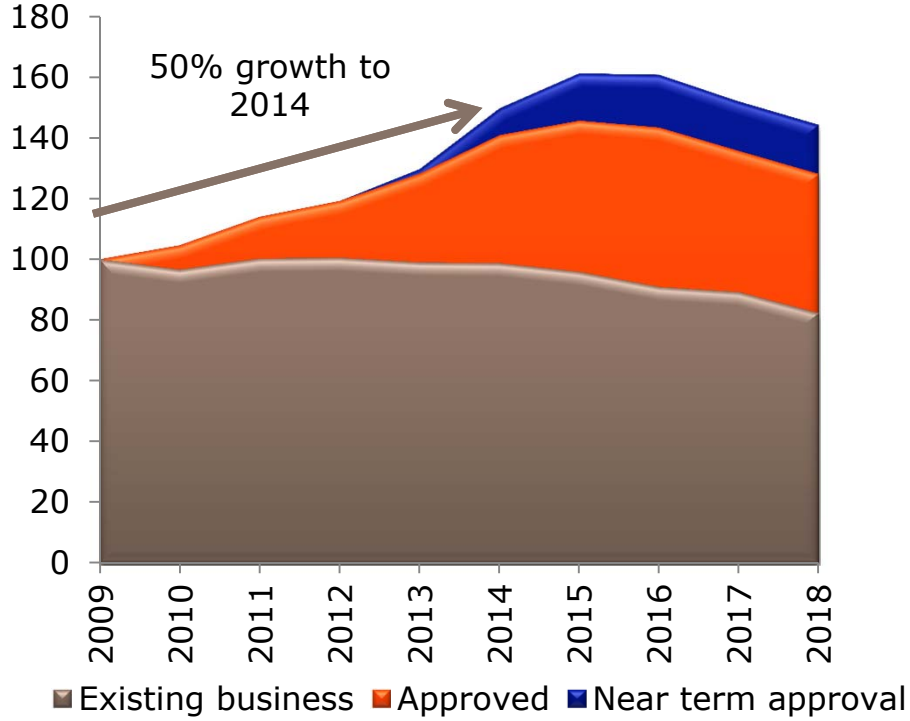
Once more, Xstrata is enjoying first mover advantage; this time in industry-leading organic growth

- Project pipeline to deliver 50% overall volume growth by end of 2014
  - 50% growth in copper and coal, and more than 100% growth in nickel, chrome and platinum from approved projects
  - Combined with a 20% reduction in costs

Xstrata ahead in future investment



Xstrata volume growth(1)



Source: Company data and Annual Reports. Note: (1) on a copper equivalent basis with 2009 based at 100

Advancing further growth optionality

- Projects in feasibility and scoping stages offer further significant growth potential and value optionality
  - $1.3bn budgeted over the next five years to advance feasibility and scoping studies
- Supported by significant resource base with over 60% increase in resources over last 4 years*
- Early stage unapproved projects add a further 65% growth by 2020**

Further growth optionality in Xstrata portfolio***

+1.1Mtpa copper	Projects include El Pachón, Collahuasi expansion, Tampakan and Frieda River
+90Mtpa thermal coal	Projects include Oaky expansion, Togara North, Zonnebloem, Wandoan and Cerrejón expansion
80ktpa nickel	Projects include Kabanga, Falcondo, Australia, Koniambo Phase II and Sudbury
7.2bn tonnes iron ore resources	Early stage projects in Mauritania and Republic of Congo

*Note: * On copper equivalent basis using Xstrata LT pricing; increase based on contained metal (and coal at 60% yield to thermal) on Measured and Indicated Resources from 2006 to 2010*
*** 2009 basis*
**** Potential % increase over 2009 production*

The next phase of organic growth
Selected Projects

El Pachón- Copper

Description

- Location: Province of San Juan, Argentina
- Ownership: 100%
- Mineral Resource: 1.790Bt@ 0.51% Cu (Dec 10)
- Concentrator: 160ktpd, 2 grinding lines
- Production: 400ktpa Cu for first five years, average over LOM 280ktpa Cu
- Indicative Capital Cost: US$4.1 billion
- Mine life: 30 years

Project update

- Final feasibility study stage
- Additional exploration drilling during summer 2011

Tampakan- Copper

Description

- Location: Southern Philippines
- Ownership: 62.5%
- Mineral Resource: 2.4Bt@ 0.6% Cu
- Production: ~450kt Cu, 435koz Au over first five years and annual average over LOM of 375kt Cu, 360koz Au
- Indicative Capital Cost: $5.9 billion (including US$900M for power station)
- Initial mine life: 17 years

Project update

- Feasibility study completed April 2010
- Targeted project approvals: late 2011

The next phase of organic growth
Selected Projects (continued)

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Wandoan- Thermal Coal

Description

- Location: Queensland, Australia
- Ownership: 75%
- Production: circa 30Mtpa run of mine (22Mtpa product)
- Mine life: over 30 years
- Infrastructure: requires 200km new Surat Basin Rail line and 180km upgrades to existing QR network

Project update

- State and Federal approvals received
- Mining lease expected Q3 2011

Kabanga- Nickel

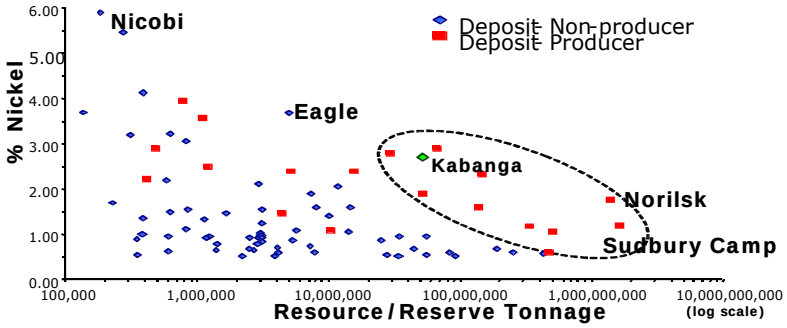
Description

- Location: Tanzania
- Ownership: 50:50 JV with Barrick
- Mineral Resource: 58MT@ 2.6% Ni for 1.5Mt of contained Ni
- Production: 40-45ktpa Ni steady state production high quality concentrate (>18% Ni grade)
- Costs: 2nd quartile LOM C1 cash cost
- Mine life: >25 yr mine life and likely resource growth

Project update

- Infrastructure: grid power system and rail system upgrade

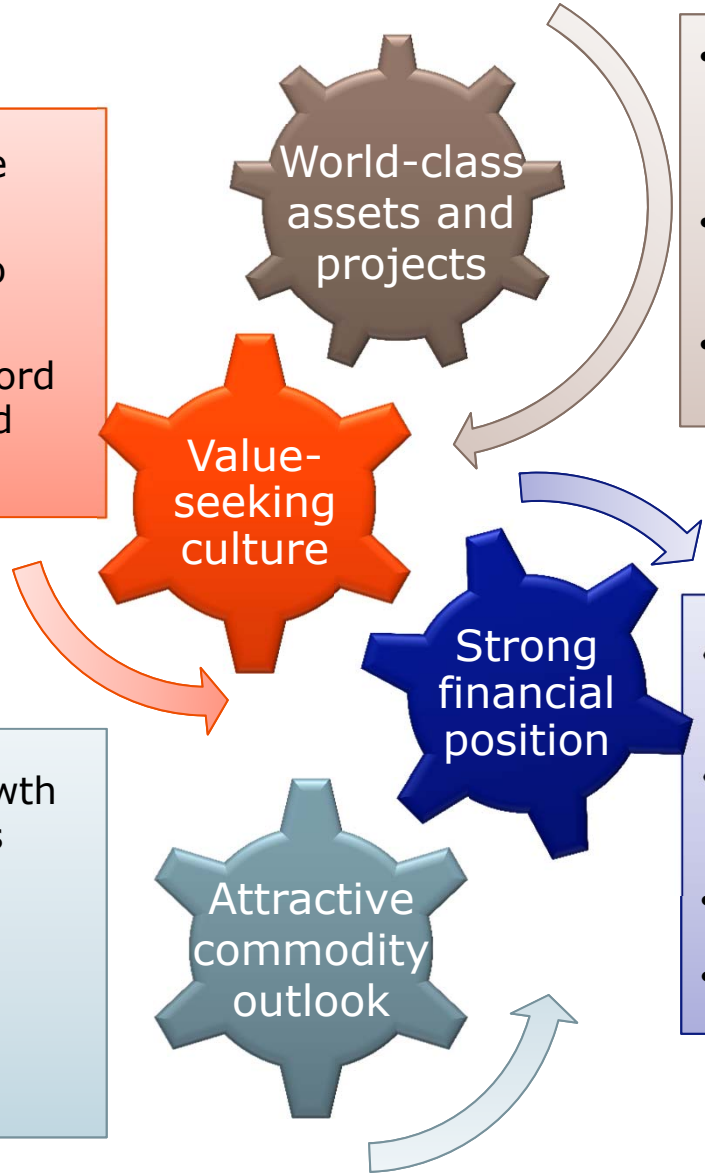
Global Sulphide Deposits (>0.5% Ni)



Xstrata has maximum optionality to deliver sustainable growth in shareholder value

xstrata

- Entrepreneurial culture
- Opportunistic but disciplined approach to M&A growth
- Management track record in transformational and organic growth



- Transformation of assets delivered long-life, low cost businesses
- Industry-leading growth of 50% to 2014
- Significant further growth options under study

- Net debt of $7.6bn and 15% gearing
- $8.7bn of headroom in facilities
- Strong cashflow generation
- Progressive dividend policy

- Continued demand growth from emerging markets
- Robust recovery in developed markets
- Structural supply constraints